Why do Companies meet with the SEC Chair?

Abstract

We examine whether meetings between the SEC Chair and public companies facilitate regulatory capture. Our analyses indicate that firms seek out meetings with the SEC Chair, as meetings are more likely to occur for politically active rather than industry leading firms, and meetings are more likely to occur during periods when the firm is under nonpublic investigation. In addition, we find that firms with meetings benefit from reduced monetary penalties, and that these reduced penalties are attributable, in part, to the favorable selection of the adjudication forum. These findings extend our understanding of how regulatory capture occurs at the SEC, and suggest that closed-door meetings between the SEC Chair and public companies may facilitate regulatory capture by providing a forum that helps firms negotiate for and obtain favorable regulatory outcomes.

1. Introduction

Regulatory capture occurs when political connections help firms extract rents from public agents like politicians and regulators (e.g., Stigler, 1971). Early studies of regulatory capture focused on how a company's connection to governmental agencies influenced regulatory approvals (e.g., Federal Trade Commission) and how changes in elected officials affected connected companies' financial condition (e.g., stock price responses to changes in who controls the US Senate). Recently, a few studies have suggested that the Securities and Exchange Commission (SEC) is also subject to regulatory capture (e.g., Correia, 2014; Heese, Khan and Ramanna, 2018) since its resources are set by Congress and its commissioners are appointed by the President. While these studies provide evidence indicating that politically connected firms obtain more favorable regulatory outcomes, they do not provide evidence explaining how the structure of the SEC's operations facilitate regulatory capture nor do they explain how politically connected firms are able to work with the SEC to obtain regulatory benefits.

We suggest that closed-door meetings between the SEC Chair and public companies may facilitate regulatory capture by providing a forum that helps firms negotiate for and obtain favorable regulatory outcomes. SEC Chairs have broad responsibilities to satisfy the mission of the SEC to protect investors, maintain fair, orderly and efficient markets and facilitate capital formation. SEC documentation states that the agency will "proactively seek out information from market experts both inside and outside the SEC to help inform the regulatory process, look for new risks, understand the impact of significant market events, and ensure that rules and registrants' disclosures take into account the latest market environment and practices." As a result, SEC Chairs have busy calendars where they meet with elected officials, other regulatory agencies, academics and public companies.

We focus on meetings with public companies because we posit that those may facilitate regulatory capture by providing a private venue for companies to talk directly with and seek the advice of the SEC Chair, the individual most responsible for the regulatory agenda of the agency. One critical aspect that determines whether SEC Chair meetings facilitate regulatory capture is the nature of the company. To the extent that the purpose of these meetings is to support the SEC mission of an effective regulatory regime, the types of companies meeting with the SEC Chair should either have strong governance practices or generally be among the most important in the US economy and in their respective industry. In contrast, to the extent that these meetings are a response to regulatory capture, then we will observe a disproportionate representation of politically connected firms.

Our first set of empirical tests examine whether industry leading or politically active companies are more likely to meet with the SEC Chair. We identify politically active companies using the natural log of total Political Action Committee ("PAC") contributions for the year. We identify firms that are industry leading from a corporate governance perspective using the entrenchment index (*E_Index*) developed by Bebchuk, Cohen, and Ferrell (2008), and from an economic perspective using the various measures of bellwether firms in Bonsall, Bozanic, and Fischer (2013). We find a positive and significant association between a company's PAC contributions and the likelihood that it meets with the SEC Chair. The coefficients suggest that this association is economically meaningful, as increasing PAC from the median to the third quartile increases the probability of a SEC Chair meeting by approximately 8%. In contrast, we find that neither strong governance nor bellwether firms are more likely to meet with the SEC Chair. Collectively, our evidence suggests that SEC Chair meetings are with politically active rather than industry leading firms, consistent with regulatory capture.

We supplement the above analysis by examining whether there is also time variation in SEC Chair meetings that reflect regulatory capture. More specifically, we examine whether companies are more likely to meet with the SEC Chair when they are under formal investigation by the SEC. Formal investigations occur prior to enforcement actions and are nonpublic information—we requested and received the start and end date of each formal investigation for the past 15 years from the SEC. If SEC Chair meetings are driven by the agenda and preferences of the SEC Chair, we would not expect SEC Chair meetings to be more frequent during periods when those companies are under investigation. In contrast, if SEC Chair meetings are driven by the agenda and preferences of the companies, then meetings will be more frequent during periods when the company is under investigation. Consistent with regulatory capture, we find that SEC Chair meetings are more frequent during periods where the firm is under formal investigation.

Overall, these two sets of analyses suggest that firms seek out meetings with the SEC Chair, as meetings are more likely to occur for politically active rather than industry leading firms, and meetings are more likely to occur during periods when the firm is under formal investigation. Next, we consider whether firms profit from these meetings through more favorable enforcement outcomes. As a first step, we focus on monetary outcomes, and estimate the effect of SEC Chair meetings on monetary outcomes. We find that both SEC Chair meetings and the level of PAC contributions reduce monetary penalties, and that the economic strength of the *Meet* variable is stronger than the *PAC* variable at explaining the reduction in monetary penalties.

Lastly, we examine one potential driver of the more favorable enforcement outcomes for firms that meet with the SEC Chair: the choice of enforcement venue. All enforcement actions brought by the SEC are adjudicated either in federal district court or through administrative proceedings. In general, cases routed to federal district court are considerably more expensive to

litigate, and outcomes are more uncertain. This occurs because Administrative courts limit discovery and place relatively short time limits on pre-trail motions and preparation. In addition, the administrative law judge (ALJ) overseeing these proceedings is hired by the SEC staff and paid by the SEC, unlike federal judges who are appointed through political processes. We find that companies with SEC Chair meetings are substantially more likely to be routed to administrative proceedings, suggesting that venue selection may partially explain how the benefits of regulatory capture are obtained.

We provide evidence suggesting that SEC Chair meetings are disproportionately attended by politically active companies, and that these meetings confer benefits through reduced regulatory penalties. In addition, our evidence suggests that these benefits are an outcome of a favorable selection of the adjudication forum. While it is natural to view lower monetary penalties as evidence of cooperation, we do not believe that our results can be interpreted in that way because when we examined the text of the enforcement actions for companies with SEC Chair meetings, we did not identify any explicit mention of leniency due to cooperation.

Our main contribution is to the literature that examines whether there is SEC regulatory capture. Correia (2014) documents that politically connected firms are less likely to be involved in SEC enforcement actions and face lower penalties if they are prosecuted by the SEC. Similarly, Heese, Khan and Ramanna (2018) find that firm political connections positively predict comment letter reviews and substantive characteristics of such reviews, including the number of issues evaluated and the seniority of SEC staff involved. We add to these studies by showing that SEC Chair meetings and adjudication forum are used to sustain regulatory capture.

We also add to the literature that investigates the choice of SEC enforcement target and the intensity of enforcement activity. For example, Kedia and Rajgopal (2011) document that the SEC

is more likely to target firms headquartered close to its offices, which they suggest is because of resource constraints at the agency. deHaan, Kedia, Koh and Rajgopal (2015) document that the "revolving door" for trial lawyers at the SEC's enforcement division generally promotes more aggressive regulatory activity because it encourages SEC lawyers to showcase their enforcement expertise to potential future employers. We add to these explanations by finding that regulatory capture also plays in a role in SEC enforcement activity.

2. Literature Review and Hypotheses

Our study primarily contributes to the literature that examines SEC enforcement. Most early studies in this area examine the consequences of enforcement actions. For example, Feroz, Park, and Pastena (1991) examine 223 Accounting and Auditing Enforcement Releases (AAERs) issued between 1982 and 1989 to document that most accounting-based enforcement actions relate to revenue recognition issues, and that the release of an AAER is associated with substantial negative abnormal returns. Karpoff, Lee and Martin (2008b) document similar adverse consequences for firms subject to enforcement actions—they find that for each dollar that a firm misleadingly inflates its market value, it loses this dollar plus an additional $3.08 through monetary fines and decreases in share price when its misconduct is revealed. Relatedly, Karpoff, Lee and Martin (2008a) track the employment consequences of managers at firms subject to enforcement actions, and find that culpable managers bear substantial financial losses through job loss, restrictions on their future employment, losses in the value of their shareholders, and SEC fines.

Even though prior studies have generally found that the majority of fraud detection does not rely on the SEC, but rather on several different actors, including employees, the media and industry regulators (e.g., Dyck, Morse and Zingales, 2010), the SEC continues to play an important role in punishing detected fraud. As a result, more recent studies have begun to investigate the

choice of enforcement target and the intensity of enforcement activity. For example, Kedia and Rajgopal (2011) document that the SEC is more likely to target firms headquartered close to its offices, which they suggest is because of resource constraints at the agency. deHaan, Kedia, Koh and Rajgopal (2015) document that the "revolving door" for trial lawyers at the SEC's enforcement division generally promotes more aggressive regulatory activity because it encourages SEC lawyers to showcase their enforcement expertise to potential future employers.

Our study examines whether meetings with the SEC Chair have consequences for enforcement outcomes. The goal of the SEC, as outlined in its strategic plan, is to establish and maintain an effective regulatory environment that promotes high-quality disclosure, financial reporting, and governance, and prevents abusive practices by market participants. To support this objective, the SEC notes that it will "proactively seek out information from market experts both inside and outside the SEC to help inform the regulatory process, look for new risks, understand the impact of significant market events, and ensure that rules and registrants' disclosures take into account the latest market environment and practices." This evidence suggests that meetings should occur between the SEC Chair and the most important firms in the US economy and in their respective industry.

It is also possible that meetings between firms and the SEC Chair occur because of regulatory capture. The broad finding from this literature is that political connections help firms extract rents from public agents like politicians and regulators (e.g., Stigler, 1971). Within this literature, a small number of studies examine the link between political expenditures and enforcement decisions by different governmental agencies. Gordon and Hafer (2005) document lower investigation rates by the Nuclear Regulatory Commission for firms that make PAC contributions. Similarly, Richter et al. (2009) show that lobbying firms experience lower tax rates,

possibly as a result of more lenient interpretation and enforcement of tax laws by the IRS. Taken together, these findings are consistent with political expenditures being associated with favorable treatment by regulatory agencies.

With regard to the SEC, Congress determines the SEC's budget and oversees its operations, while the president of the United States, with the advice and consent of the Senate, appoints SEC commissioners and names the SEC chairman. As such, pursuing enforcement actions against politically connected firms could be costly to SEC commissioners and staff if such actions antagonize the SEC's overseers. Consistent with this conjecture, Correia (2014) documents that politically connected firms are less likely to be involved in SEC enforcement actions and face lower penalties if they are prosecuted by the SEC. Similarly, Heese, Khan and Ramanna (2018) find that firm political connections positively predict comment letter reviews and substantive characteristics of such reviews, including the number of issues evaluated and the seniority of SEC staff involved.

Our view of regulatory capture is very similar to that in Correia (2014) and Heese et al. (2018). In both of those studies, the underlying assumption is that SEC officials consider the political connections of the firm when deciding on enforcement proceedings. We extend these studies by considering one specific mechanism through which politically connected firms can receive favorable regulatory treatment: meetings with the SEC Chair. To the extent that SEC Chair meetings are in response to regulatory capture, then these meetings will occur between politically active firms. This leads to our first hypothesis:

H1: Politically active firms are more likely to meet with SEC Chairs

As previously noted, the tension in this hypothesis arises, in part, because of the SEC's stated objective that it seeks out market experts in designing an effective regulatory environment.

Under this explanation, the types of companies meeting with the SEC Chair would generally be among the most important in the US economy and in their respective industry, and not those with strong political connections. Like both Correia (2014) and Heese et al. (2018), an important assumption of our analyses is that SEC officials, and in particular the SEC Chair, are aware of firms' political connectedness. Anecdotal interview evidence of a top-down management style where politically astute senior SEC officials allocate and oversee staff reviews of firms reported in Heese et al. (2018) is supportive of this idea.

3. Data Sources

We obtained calendar data outlining the SEC Chair's meeting schedule from the SEC's website.[1] The calendars are very specific; they report the exact date and time of each meeting. To illustrate, we provide an excerpt from the calendar of SEC Chair Mary L. Schapiro in Appendix B. This excerpt indicates that during the week of July 24, 2002, the SEC Chair had meetings with staff, agencies, SEC commissioners, inspector generals, elected officials, and the leaders of two publicly traded companies—James McNerney, the CEO of Boeing, and Nels Olson, the Vice Chairman of Korn Ferry. In this study, we focus on the meetings between the SEC Chair and publicly traded companies. The calendars are only available after 2009.[2]

We obtained information on formal investigations conducted by the SEC's Division of Enforcement through a Freedom of Information Act ("FOIA") request.[3] The opening and closing of an investigation represents the period of time under which the company is under formal review, but it is not the first step in the enforcement process. The first step in the enforcement process is

[1] More precisely, we initially requested the SEC chairman's calendar in 2013 using a Freedom of Information Act ("FOIA") request. After receiving this information, the same data became publicly available at https://www.sec.gov/foia/docs/sec-chair-calendar.htm.
[2] Calendar data is missing for the calendar year of 2011 and September 2012 to March 2013.
[3] https://www.sec.gov/page/office-foia-services

an informal inquiry, which typically commences after a triggering event (e.g., media stories, company filings, tips, or referrals) that is sufficient to generate "official curiosity" on the part of SEC staff.[4] Informal inquiries are nonpublic, and consist of the voluntary provision of documents or testimony by the company to the SEC.

Informal inquiries become formal investigations through a *Formal Order of Investigation*, which requires that the SEC articulate the relevant facts it has discovered to date, the potential violations of federal securities laws to be investigated and the specific staff members who will be conducting the investigation. Once a *Formal Order of Investigation* is issued, the enforcement staff has the subpoena power necessary to obtain evidence from the company and other knowledgeable entities (e.g., the company's auditor). If the staff believes that charges are appropriate at the end of its fact-finding investigation, it provides a *Wells Notice*. The *Wells Notice* does not mean that the SEC itself has determined that there was a violation of law. Rather, it is a notification to the company that the staff believes that a violation has occurred, that the *Wells Notice* recipients are responsible for the violation, and that the staff are recommending that the Commission authorize an enforcement action. A recipient of the *Wells Notice* will have an opportunity to provide a written submission to the staff that outlines why the staff should not pursue the enforcement action.

There is no mandate that the firm disclose the receipt of a *Wells Notice*, and so typically the existence of an SEC investigation is nonpublic. The investigation data that we requested and received from the SEC is the only source that we are aware of for this data. The data we obtained lists all completed investigations and provides the SEC investigation tracking number, company name, investigation start date (i.e., the *Formal Order of Investigation*), and investigation end date.

[4] https://www.sec.gov/divisions/enforce/enforcementmanual.pdf

An excerpt of the data we received is provided in Appendix C. We limit our sample to investigation periods between 2002 and 2017 because the restatement data in Audit Analytics starts in 2002. We first fuzzy match company names in the investigation data set with company names in Compustat, and then manually verify each match. The data contains 1,603 unique investigations, which translates to 4,558 firm-years of investigations, between 2002 and 2017.

We identify all SEC enforcement actions between Oct. 1 2009 and Dec. 31 2016 through SEC Market Data published annually on the SEC's website.[5] All SEC enforcement actions are initiated by the SEC and there may be more than one defendant in a particular action. We only include enforcement actions against publicly traded firms or managers in publicly traded firms. We collect Political Action Committee (*PAC*) contributions from The Center for Responsive Politics.[6] Lastly, we use Audit Analytics to identify restatements (*Restate*). We only include restatements that are non-clerical errors.

We present our sample selection process in Table 1 Panel A. The meeting sample period is from 2008 through 2016, during which there are 146 firm-years with meetings between publicly traded firms and the SEC chair. If a firm meets more than once with the SEC chair during a calendar year, we treat it as one observation for that year. During the same period, there are 24,956 firm-years with no meeting and non-missing information for the control variables.

We present descriptive statistics for our sample in Table 2. Firms with meetings on average make about $297,928 PAC contributions, which is higher than the average PAC contributions of $35,307 by firms with no meetings. In comparison to firms without meetings, firms with meetings

[5] https://www.sec.gov/reports?aId=edit-field-article-sub-type-secart-value&year=All&field_article_sub_type_secart_value=Reports+and+Publications-SelectSECandMarketData&tid=All
[6] https://www.opensecrets.org

are larger firms (*Size*), have more analyst coverage (*Analyst*), are more likely to be a Fortune 100 firms (*Fortune*), and less likely to be in an industry with high litigation risk (*FPS*).

4. Research Design and Results

4.1 What type of companies meet with the SEC Chair?

Broadly speaking, we suggest that there are two competing reasons why the SEC Chair meets with certain companies. On the one hand, the SEC Chair may reach out to industry leading companies to seek their input and expertise as part of developing an effective regulatory environment. Under this explanation, there are two types of firms that we suggest the SEC will reach out to—those that exhibit the best corporate governance practices, which we refer to as strong governance firms, and those that are among the most important in the US economy and in their respective industry, which we refer to as bellwether firms. On the other hand, the companies meeting with the SEC Chair may be doing so because of their own agenda and preferences. An important component to such meetings is the company's ability to get the attention of the SEC Chair. Therefore, to the extent that meeting requests occur because of company preferences, we suggest that meetings are more likely to occur for politically active companies because increasing levels of political activism are likely to increase the odds that the meeting is recommended to the SEC Chair by members of congress.

Our first set of empirical tests examine whether strong governance, bellwether or politically active companies are more likely to meet with the SEC Chair. We use the following logit specification:

$$Prob(Meet_{i,t}) = f\,(PAC_{i,t-1},\ E\text{-}Index_{i,t-1},\ Bellwether_{i,t-1},\ Controls_{i,t-1}) \qquad (1)$$

The dependent variable *Meet* equals 1 if firm *i* meets with the SEC Chair in period *t*, and is 0 otherwise. All independent variables are lagged one year from *Meet* because we are predicting how a set of covariates in the prior period predict the likelihood of a meeting with the SEC Chair in the current period. We identify politically active companies using *PAC*, which equals the natural log of total Political Action Committee ("PAC") contributions for the year. We use the entrenchment index (E_Index) developed by Bebchuk, Cohen, and Ferrell (2008) to identify strong governance firms. The E_Index includes 6 provisions: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for mergers and charter amendment. This index ranges from 0 to 6, where higher values indicate worse corporate governance. We follow Cassell et al. (2013) and set missing values for the index to 0 and include a separate indicator variable (*Missing E_index*) which equals 1 when the governance data are unavailable, and 0 otherwise.

We follow prior literature (e.g., Bonsall, Bozanic, and Fischer, 2013) and define bellwether firms as firms whose earnings contain the most macroeconomic information. More specifically, we define *Bellwether* as an indicator variable equals 1 if the R^2 of a firm is in the top 5 percentile in an industry-fiscal-year, and 0 otherwise. We first extract the R^2 from the following regression:

$$E_{i,t} = \beta_0 + \beta_1 E_{m,t} + \varepsilon_{i,t} \qquad (2)$$

where $E_{i,t}$ is the firm-level quarterly income before extraordinary items scaled by the beginning market capitalization. $E_{m,t}$ is aggregate earnings, which is measured as the sum of all Compustat firms' quarterly income before extraordinary items deflated by the sum of the beginning market capitalization. We use 20 quarters to estimate the regression. The R^2 from the regression represents the extent to which a firm's earnings contain information about the macroeconomic state. We then rank the R^2 by year or industry-fiscal-year, and define the top 5 percentile of the distributions to

be bellwether firms. As we outline in more detail later, we also consider several alternative definitions of *Bellwether* to ensure that our conclusions are not sensitive to this research design choice.

Our control variables follow from Correia (2014). We control for a number of firm specific financial characteristics, which include performance matched discretionary accruals (*DA)*, which we measure following Kothari et al. (2005), total assets (*Size*), market to book ratio (*M2B*), and financial leverage (*Leverage*). We also control for firm age (*Age*), distance to the SEC headquarter (*Distance*), analyst coverage (*Analyst*), Fortune 100 companies (*Fortune*), and industries with high litigation risk (*FPS*). *Age* is the number of annual observations in Compustat. *Distance* is the natural log of the distance in miles between a firm's headquarters and the closest SEC office. *Analyst* is the number of analysts covering a firm in a given year in IBES. *Fortune* is an indicator variable that takes the value of 1 for Fortune 100 firms, and 0 otherwise. Following Kim and Skinner (2012), we categorize high litigation risk by industry groupings. *FPS* is an indicator variable that takes the value of 1 if the firm is in a high litigation industry (i.e., biotech, computer, electrics, and retail industry), and 0 otherwise. Variable definitions are included in Appendix A.

The Results of equation (1) are provided in Table 3. To provide a more complete picture of how *PAC*, *E-Index* and *Bellwether* predict *Meet*, we provide regression results separately for *PAC* in Column (1), E-Index in Column (2), *Bellwether* in Column (3), and then Bellwether and *PAC* together in Column (4). In both Columns (1) and (4), the coefficients on PAC are positive and significant, indicating that there is a positive association between a company's PAC contributions and the likelihood that it meets with the SEC Chair. The coefficients suggest that this association is economically meaningful. For example, in column (4), increasing PAC from the median to the third quartile increases the probability of a SEC Chair meeting by 8% (i.e., 0.062 *

(13.112 – 11.816)). In contrast, the coefficient on Bellwether is insignificant in both Columns (2) and (4), and the coefficient on E-Index is insignificant in Columns (3) and (4). These results suggest that neither the firm's bellwether status or corporate governance practices are associated with SEC Chair meetings.

We conduct a number of robustness tests to provide additional support for our conclusion that PAC is an important driver of SEC chair meetings. First, we drop size as a control variable to check if that control is affecting the coefficient on Bellwether. We find stronger results in this specification for the PAC coefficient (0.125 with p-value<0.01), but both bellwether and E-Index remain insignificant.

Collectively, the evidence in Table 3 suggests that SEC Chair meetings are with politically active rather than Bellwether firms. To ensure that this conclusion is not attributable to our approach to identifying Bellwether firms, we conduct two sets of robustness tests. First, we drop size as a control variable to check if that control is affecting the coefficient on *Bellwether*. We find stronger results in this specification for the PAC coefficient (0.125 with p-value<0.01), but both bellwether and E-Index remain insignificant. Second, we use a number of alternative definitions for Bellwether. These alternative measures include defining Bellwether as an indicator variable that takes the value of 1 for firms that rank in the top 5 percent of sales, that rank in the top 10 percent of sales, that rank in the top 5 percent of sales in a given industry-calendar-year, that rank in the top 10 percent of sales in a given industry-calendar-year, and that rank in the top 10 percent of sales in a given industry-fiscal-year.

Table 4 shows that our main results remain similar using each of these seven alternative measures of bellwether. In each column, the coefficient on PAC is positive and statistically significant, with coefficients that range in value from 0.062 to 0.066. The robustness of the

coefficients on PAC across specifications is reassuring, as it suggests that our finding is not sensitive to research design choices. The coefficient on *Bellwether* is negative and significant in (2), and insignificant in all other columns. These coefficients indicate that a firm's status as a bellwether firm is not associated with an increase in SEC Chair meetings.

4.2 When do companies meet with the SEC Chair?

A company's desire to meet with the SEC Chair may vary over time based on a number of factors. We consider one such factor: whether the company is currently under formal investigation by the SEC. We examine this factor because it complements the analyses in Section 4.1 that indicate that politically active rather than industry leading firms are meeting with the SEC Chair. More specifically, if SEC Chair meetings are driven by the agenda and preferences of the SEC Chair, we would not expect that meetings with companies be more frequent during periods when those companies are under investigation. In contrast, if SEC Chair meetings are driven by the agenda and preferences of the companies, we would expect that meetings will be more frequent during periods when the company is under investigation. We examine these possibilities with the following specification:

$$Prob(Meet_{i,t}) = f\,(Investigation_{i,t},\ Controls_{i,t-1}) \qquad (3)$$

The dependent variable *Meet* equals 1 if firm *i* meets with the SEC Chair in period *t*, and is 0 otherwise. The control variables mirror those used in equation (1). *Investigate* is a binary variable that takes the value of 1 for firm i in period t if the firm is under formal investigation in that period.

The results in Table 5 indicate that SEC Chair meetings are more frequent during periods where the firm is under information investigation as the coefficient on *Investigate* is positive and significant. The economic magnitude of the coefficient is substantial. In untabulated results, we

calculate the odds ratio of *Investigate* to be 2.7, suggesting that firms investigated by the SEC are nearly three time more likely to meet with the SEC than firms without an investigation.

We find similar results when we focus on the first year of the investigation period. More specifically, we re-estimate equation (3) using an alternative definition of investigate. Under this alternative approach, investigate is a binary indicator that takes the value of one if it is less than one year since the initiation of the formal investigation by the SEC, and zero otherwise. In untabulated results, the coefficient on investigate is 0.731 with a standard error of 0.299, indicating statistical significant at p-value<0.01. As in Table 5, the coefficients on both Bellwether and E-Index remain insignificant.

4.3 Are there economic benefits associated with SEC Chair meetings?

The analyses in Section 4.1 and 4.2 suggest that firms are seeking out meetings with the SEC Chair, as meetings are more likely to occur for politically active rather than industry leading firms, and meetings are more likely to occur during periods when the firm is under formal investigation. Next, we consider whether firms profit from these meetings through more favorable enforcement outcomes. As a first step, we focus on monetary outcomes, and estimate the effect of SEC Chair meetings on monetary outcomes using the following OLS specification:

$$Monetary\ Penalties = f(PAC, Meet, controls) \qquad (4)$$

The dependent variable is the natural logarithm of civil monetary settlement for each enforcement action. We focus on each enforcement action rather than aggregating enforcement actions at the firm level because each enforcement action is unique. More specifically, each enforcement action proceeds through the adjudication system based on the facts and circumstances surrounding the alleged wrongdoing. Because of our focus on each enforcement action, we define *Meet* as an

indicator variable that equals one if the firm met with the SEC chair between investigation start date and enforcement start date, and 0 otherwise. This definition ensures that the variable captures meetings that occurred before the monetary penalties were assessed. We include all the control variables from equation (1). In addition, we also control for a number of attributes of the case. More specifically, we control for case complexity using the natural log of total number of violations of securities laws (*Violations*) and the natural log of length (measured in years) to resolve an SEC enforcement (*Length*). We control for case severity by including an indicator variable that takes the value of 1 for those cases that involved a restatement (*Restate*), and by including an indicator variable equals 1 if an enforcement action involves fraud allegation (*Fraud*).

The results of equation (4) are presented in Table 6. The coefficients on both *Meet* and *PAC* are negative and statistically significant in each column. Both sets of coefficients are also economically meaningful. In column (2), the coefficient on *Meet* is -2.949. To evaluate the economic significance of Meet, we generate the predictive values of monetary penalties by setting all variables at mean and shifting *Meet* from 0 to 1. We find that turning Meet from 0 to 1 is associated with a reduction in monetary penalties by about 22%,[7] suggesting that a SEC Chair meeting has a meaningful impact on the ultimate monetary outcome. In column (3), we interact *Meet* and *PAC* and find that the coefficient of the interaction term is statistically insignificant.

Next, we examine one potential driver of the more favorable enforcement outcomes for companies that meet with the SEC Chair: the choice of enforcement venue. All enforcement actions brought by the SEC are civil in nature, as the agency has no authority to bring criminal cases. The SEC has two forums in which to bring its enforcement actions: federal district court

[7] The predictive value of monetary penalties is 13.173 when setting *Meet* equal 0 and all other variables at means. The predictive value of monetary penalties is 10.245 when setting *Meet* equal 1 and all other variables at means. The economic significance of *Meet* is calculated as (10.245-13.173)/13.173*100%=-22%

and administrative proceedings. There are a number of procedural safeguards for respondents in federal court that are absent in administrative proceedings, which make cases heard in federal court more expensive and more independent of the SEC's enforcement philosophy. Specifically, Federal Judges are appointed through political processes, unlike administrative law judges (ALJ), who are hired by the SEC staff and paid by the SEC. Cases routed through administrative court are also more aligned with SEC priorities on appeal, as the first-level appeal from an ALJ ruling is to the full commission—the same commission that authorized the formal order of investigation in the first place. Procedurally, there is no right to a jury trial, and there are time limits as to how long after the case is filed the ALJ decision must be issued, thus simplifying and expediting the judicial process. Even though the SEC won more than 90% of its cases filed in administrative courts compared with only 69% in federal district courts, the defense costs and litigation penalties are far lower in administrative court.[8]

Based on these differences, we expect companies to prefer administrative court, and suggest that at least one potential reason why companies that meet with the SEC Chair have lower enforcement penalties is because their actions are more likely to be adjudicated in administrative court. We test this prediction using the following logit model:

$$Prob\ (SEC\ Admin) = f\ (PAC,\ Meet,\ controls) \quad (5)$$

The dependent variable equals 1 if the case was routed to SEC administrative proceedings, and 0 if the case was routed to federal district court. All independent variables are defined in the same way as equation (4). The results in Table 7 indicate that meetings and the firm's political connections both play a role in the SEC's venue selection process as both *Meet* and *PAC* have positive and significant coefficients. These results suggest that firms that meet with the SEC chair

[8] Jean Eaglesham, "SEC Wins With In-house Judges," *Wall Street Journal*, May 6, 2015, http://on.wsj.com/1AKOxEH

and donate more are more likely to be routed to the SEC administrative proceedings. The coefficient magnitude of *Meet*, however, is larger than the coefficient magnitude of *PAC*.

4.4 Changes in PAC Contributions around SEC Investigations

We provide further support for our conclusions in Section 4.2 by examining the how PAC contributions change differently across firms with and without SEC chair meetings. If the SEC proactively seeks to meet with firms to fulfill its regulatory role of improving the overall welfare of the capital market, there should be no difference in PAC contribution patterns across firms with and without meetings in response to SEC investigations. On the other hand, if firms initiate meetings for private benefits, we expect to see an increase in PAC contributions for firms that meet with the SEC chair while under SEC investigation when compared to firms that do not meet with the SEC chair. The results in Table 8 are consistent with this second alternative. Panel A presents the descriptive statistics of PAC contributions split by whether the company met with the SEC Chair or not, and Panel B presents descriptive statistics with a further split by Federal and Administrative court. We observe that firms that meet with the SEC in general have larger PAC contributions than firms that do not, and that firms routed through Administrative court have larger PAC contributions than firms routed through Federal court.

4.5 Robustness Tests

We estimate a series of rare event logistic regression models developed by Tomz, King, and Zeng (2003) since SEC Chair meetings (our variable of interest) is a relatively rare event. This alternative specification addresses the econometric concern that coefficients may be biased away from the null when the dependent variable is a rare event (defined as dependent variable differs

from the mode in less than 5 percent of cases by King and Zeng 2001). We re-run our main results in Table 3 and report the rare event logit results in Table 9. We find that our results are robust to the rare event logit methodology. Specifically, we find that *PAC* loads positively and significantly in Table 9, with coefficients that are similar to those in our main specification.

4.6 Summary of Results

Collectively, we provide evidence suggesting that SEC Chair meetings are disproportionately attended by politically active companies, and that these meetings confer benefits through reduced regulatory penalties. In addition, our evidence suggests that these benefits are an outcome of a favorable selection of the adjudication forum. While it is natural to view lower monetary penalties as evidence of cooperation, we do not believe that our results can be interpreted in that way because when we examined the text of the enforcement actions for companies with SEC Chair meetings, we did not identify any explicit mention of leniency due to cooperation.

5. Conclusion

Recent studies have suggested that the Securities and Exchange Commission (SEC) is subject to regulatory capture (e.g., Correia, 2014; Heese, Khan and Ramanna, 2018) since Congress allocates its resources and the President appoints its commissioners. While these studies provide evidence indicating that politically connected firms obtain more favorable regulatory outcomes, they do not provide evidence explaining how the structure of the SEC's operations facilitate regulatory capture nor do they explain how politically connected firms are able to work with the SEC to obtain regulatory benefits. We extend these studies by showing that SEC Chair meetings enable regulatory capture. Our analyses suggest that firms seek out meetings with the SEC Chair, as meetings are more likely to occur for politically active rather than industry leading

firms, and meetings are more likely to occur during periods when the firm is under nonpublic investigation. In addition, we find that firms with meetings benefit from reduced monetary penalties, and that these reduced penalties are attributable, in part, to the favorable selection of the adjudication forum. These findings extend our understanding of how regulatory capture occurs at the SEC.

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Appendix A: Variable Definitions

Variable Name	Definition
PAC ($)	Total PAC contributions in the current year.
PAC	Natural log of PAC.
Bellwether	An indicator variable equals 1 if the R2 of a firm is in the top 5 percentile in an industry-fiscal-year, and 0 otherwise. The R2 is estimated by regressing a firm's earnings on aggregate earnings using five years of data. Firm's earnings are quarterly income before extraordinary items scaled by the beginning market capitalization. Aggregate earnings are the sum of all Compustat firms' quarterly income before extraordinary items divided by the sum of all Compustat firms' beginning market capitalization.
Restate	An indicator variable equals 1 if there is a restatement per Audit Analytics, and 0 otherwise.
Meet	*Meet* equals one if the firm met with the SEC chair between investigation start date and enforcement start date, and 0 otherwise.
E_Index	Following Bebchuk, Cohen, and Ferrell (2008), we create the entrenchment index based on six provisions: staggered boards, limits to shareholder bylaw amendments, poison pills, golden parachutes, and supermajority requirements for merger and charter amendments. These data are obtained from Institutional Shareholder Services on WRDS.
Investigate	An indicator variable equals 1 if the firm-year is at risk of investigation, and 0 otherwise.
DA	Performance matched discretionary accruals. We estimate DACC following Kothari et al. (2005).
Size	Natural log of total assets.
M2B	Market to book ratio (CEQ/PRCC_F*CSHO).
Leverage	Total debts divided by total assets.
Age	Number of annual observations of a firm in Compustat.
Distance	Distance between the firm's headquarter and the SEC.
Analyst	Number of analysts covering a firm in a given year in IBES.
Fortune	An indicator variable equals 1 if the firm is one of the Fortune 100 firms according to Compustat, and 0 otherwise.
FPS	Equals 1 if the firm is in the biotech (SIC codes 2833–2836 and 8731–8734), computer (3570–3577 and 7370–7374), electronics (3600–3674), or retail (5200–5961) industry, and 0 otherwise
Defendants	Natural log of number of defendants in an SEC enforcement action.
Violations	Natural log of total number of violations of securities laws.
Fraud	An indicator variable equals 1 if an enforcement action involves fraud allegation, and 0 otherwise.
Investigate	An indicator variable equals 1 if the enforcement was related to an investigation, and 0 otherwise.
Length	Natural log of length (measured in years) to resolve an SEC enforcement.

Appendix A: Variable Definitions (continued)

Variable Name	Definition
bell_leader_5	An indicator variable equals 1 if a firm's sales are within top 5 percentile among all firms in that period, and 0 otherwise.
bell_leader_10	An indicator variable equals 1 if a firm's sales is in the top 10 percentile in a given year.
bell_ep5_ind_dec	An indicator variable equals 1 if the R2 of a firm is in the top 5 percentile in an industry-calendar-year, and 0 otherwise. The R2 is estimated by regressing a firm's earnings on aggregate earnings using five years of data. Firm's earnings are quarterly income before extraordinary items scaled by the beginning market capitalization. Aggregate earnings are the sum of all Compustat firms' quarterly income before extraordinary items divided by the sum of all Compustat firms' beginning market capitalization.
bell_ep10_ind_year	An indicator variable equals 1 if the R2 of a firm is in the top 10 percentile in an industry-fiscal-year, and 0 otherwise. The R2 is estimated by regressing a firm's earnings on aggregate earnings using five years of data. Firm's earnings are quarterly income before extraordinary items sclaed by the beginning market capitalization. Aggregate earnings are the sum of all Compustat firms' quarterly income before extraordinary items divided by the sum of all Compustat firms' beginning market capitalization.
bell_ep10_ind_dec	An indicator variable equals 1 if the R2 of a firm is in the top 10 percentile in an industry-calendar-year, and 0 otherwise. The R2 is estimated by regressing a firm's earnings on aggregate earnings using five years of data. Firm's earnings are quarterly income before extraordinary items scaled by the beginning market capitalization. Aggregate earnings are the sum of all Compustat firms' quarterly income before extraordinary items divided by the sum of all Compustat firms' beginning market capitalization.
bell_leader_mkt5	An indicator variable equals 1 if a firm's sales is in the top 5 percentile in a given industry-year.
bell_leader_mkt10	An indicator variable equals 1 if a firm's sales is in the top 10 percentile in a given industry-year.

Appendix B: Calendar Excerpt for Chairman Mary L. Schapiro[9]

Tuesday, July 24, 2012	
8:45 am	Meeting with staff
10:00 am	Meeting with Commissioner
12:45 pm	Meeting with Congressman Darrell Issa (R-CA)
2:00 pm	James McNerney, Chief Executive Officer, Boeing
3:30 pm	Meeting with staff

Wednesday, July 25, 2012	
9:00 am	Meeting with staff
10:00 am	Meeting with Commissioner
11:00 am	Meeting with Inspector General
12:30 pm	Lunch with Nels Olson, Vice Chairman, Korn Ferry
4:00 pm	Meeting with Commissioner
5:30 pm	Meeting with Senators Charles Schumer (D-NY) and Al Franken (D-MN)

Thursday, July 26, 2012	
9:30 am	Meeting with staff
10:00 am	Meeting with Thomas Joyce, Chief Executive Officer, Knight Capital
11:00 am	Meeting with Chris Gibson, Chairman, and Xavier Rolet, Chief Executive Officer, London Stock Exchange
1:30 pm	Phone call with Congresswoman Jo Ann Emerson (R-MO)
2:30 pm	Closed Commission Meeting
4:15 pm	Meeting with Financial Planning Coalition (CFP Board), Financial Planning Association and National Association of Personal Financial Advisors
5:00 pm	Phone call with Senator Pat Toomey (R-PA)

Friday, July 27, 2012	
10:00 am	Phone call with Senator Pat Toomey (R-PA)
10:30 am	Meeting with staff
12:30 pm	Working Lunch with Commissioner and staff
2:30 pm	Meeting with staff
3:00 pm	Meeting with Commissioner
4:00 pm	Phone call with James Doty, Chairman, Public Company Accounting Oversight Board

[9] https://www.sec.gov/foia/docs/sec-chair-calendar.htm

Appendix C: Sample of Investigation Data

	A	B	C	D
3425	D-03268-A	Genie Lens Technologies, LLC	03/27/2012	09/28/2012
3426	D-03271-A	Gen-Probe Inc.	05/21/2012	09/28/2012
3427	HO-02656-A	TRANX IN CERTAIN CDS AND OTHER SECURITIE	10/29/1992	09/28/2012
3428	HO-02922-A	LATIN AMERICAN RESOURCES INC	07/27/1994	09/28/2012
3429	HO-09289-A	Trilucent Technologies and Other Issuers	03/28/2002	09/28/2012
3430	HO-10062-A	CERTAIN BONDS BY LEUMI INVESTMENT SECURITIES INC.	11/22/2004	09/28/2012
3431	HO-10823-A	MAPINFO CORPORATION	05/05/2008	09/28/2012
3432	HO-11233-A	SOUTHPEAK INTERACTIVE CORP.	08/24/2009	09/28/2012
3433	HO-11464-A	Auxilium Pharmaceuticals, Inc., et al.	09/23/2010	09/28/2012
3434	LA-01936-A	MOTORCAR PARTS & ACCESSORIES INC	01/07/2000	09/28/2012
3435	NY-07340-A	ORBITEX-SARATOGA	05/21/2004	09/28/2012
3436	NY-07493-A	Cablevision Systems Inc.	08/30/2005	09/28/2012
3437	NY-07903-A	TOMPKINS CAPITAL GROUP	04/03/2008	09/28/2012
3438	NY-08151-A	PARADIGM GLOBAL ADVISORS, L.L.C.	09/18/2009	09/28/2012
3439	NY-08204-A	BERKSHIRE HATHAWAY INC.	01/06/2010	09/28/2012
3440	HO-10386-A	JAMDAT Mobile Inc.	04/01/2006	10/01/2012
3441	HO-10998-A	Merrill Lynch & Co., Inc., In the Matter of Securities and Derivatives of	12/23/2008	10/01/2012

Table 1: Sample Selection

Panel A: Sample selection

Criteria	Meet=1	Meet=0	Total
Number of firm-years in Compustat with non-missing information for control variables	153	43,148	43,301
Number of firm-years missing information for bellwether calculation and missing IBES information	7	18,192	18,199
Final Sample	***146***	***24,956***	***25,102***

Panel B: Sample distribution by fiscal year

Fiscal Year	Meet=0	Meet=1	Total
2008	3,351	29	3,380
2009	3,312	33	3,345
2011	3,259	10	3,269
2012	3,226	18	3,244
2013	3,246	20	3,266
2014	3,097	19	3,116
2015	2,876	12	2,888
2016	2,589	5	2,594
Total	*24,956*	*146*	*25,102*

Table 2: Descriptive Statistics

This table presents descriptive statistics for sample used for the regression analysis in Table C.

	Firm-years with meetings (N=146)					*Firm-years without meetings (N=24,956)*				
	25%tile	**Median**	**75%tile**	**SD**	**Mean**	**25%tile**	**Median**	**75%tile**	**SD**	**Mean**
PAC ($)	0	$135,460	$495,000	$400,666	$297,928	0	0	$0	$170,145	$35,307
PAC (log)	0	11.816	13.112	5.829	8.443	0	0	0.000	4.282	1.966
Bellwether	0	0	0	0.276	0.082	0	0	0	0.230	0.056
E_Index	3	4	7	2.041	4.568	4	7	7	1.685	5.880
Accruals	-0.039	-0.005	0.033	0.120	-0.007	-0.072	-0.006	0.053	0.162	-0.015
Size	8.838	10.095	10.807	1.536	9.735	5.489	6.831	8.208	1.969	6.883
M2B	0.898	1.341	2.200	4.016	2.184	0.994	1.742	3.169	4.601	2.532
Leverage	0.600	0.791	0.919	0.207	0.746	0.340	0.522	0.691	0.261	0.532
Age	14	21.5	42	18.905	28.000	10	18	29	16.317	22.369
Distance	5.329	6.138	7.051	1.290	6.328	5.803	6.805	7.735	1.417	6.694
Analyst	11	21	28	11.011	19.815	4	8	16	9.319	11.050
Fortune	0	0	1	0.444	0.267	0	0	0	0.152	0.024
FPS	0	0	0	0.322	0.116	0	0	1	0.468	0.324

Table 3: Determinants of Meetings

This table presents the results of estimating the following logit model: Pr (Meeting) = f(PAC, Bellwether, controls). The dependent variable equals 1 if the firm has met with the SEC, and 0 otherwise. All independent variables are from one year before the meeting year. Standard errors are clustered by issuer and reported in the brackets. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively. All variables are defined in Appendix A. Industry and year fixed effects are included for all regressions. Standard errors are clustered by issuer and reported in the brackets.

	(1)	(2)	(3)	(4)
PAC	0.067**			0.062**
	[0.029]			[0.030]
Bellwether		0.048		-0.07
		[0.334]		[0.338]
E_Index			-0.056	-0.066
			[0.168]	[0.173]
DA	0.89	0.93	0.917	0.892
	[0.793]	[0.771]	[0.788]	[0.798]
Size	0.719***	0.794***	0.804***	0.729***
	[0.103]	[0.110]	[0.114]	[0.110]
M2B	-0.001	-0.005	-0.006	-0.001
	[0.019]	[0.018]	[0.019]	[0.020]
Leverage	2.252***	2.380***	2.472***	2.327***
	[0.568]	[0.528]	[0.542]	[0.591]
Age	-0.001	0.002	-0.001	-0.003
	[0.007]	[0.007]	[0.008]	[0.008]
Distance	-0.152	-0.169*	-0.153	-0.141
	[0.095]	[0.095]	[0.098]	[0.095]
Analyst	0.012	0.019	0.008	0.005
	[0.016]	[0.015]	[0.018]	[0.019]
Fortune	0.211	0.329	0.226	0.132
	[0.365]	[0.357]	[0.339]	[0.349]
FPS	0.960*	0.882*	0.907*	0.970*
	[0.528]	[0.512]	[0.507]	[0.526]
Constant	-11.512***	-11.932***	-11.550***	-11.149***
	[1.151]	[1.121]	[1.321]	[1.418]
Observations	25,102	25,102	25,102	25,102
Missing E-Index	No	No	Yes	Yes
Pseudo R2	0.38	0.373	0.375	0.382

Table 4: Robustness Check -- Different Specifications of Bell Weather Firms

This table replicate column (3) of Table 2 using various measures for Bellwether firms. The bellwether measure is specified at the top of each regression. All continuous variables are winsorized at the 1st and 99th percentile. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively. All variables are defined in Appendix A. Industry and year fixed effects are included for all regressions. Standard errors are clustered by issuer and reported in the brackets.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bell Weather Measure	bell_leader_5	bell_leader_10	bell_ep5_ind_december	bell_ep10_ind_december	bell_ep10_ind_year	bell_leader_mkt5	bell_ep10_ind_december
PAC	0.062**	0.066**	0.062**	0.063**	0.063**	0.065**	0.062**
	[0.030]	[0.030]	[0.030]	[0.030]	[0.030]	[0.029]	[0.030]
Bellwether	0.074	-0.608*	-0.4	-0.432	-0.286	-0.603	-0.033
	[0.280]	[0.311]	[0.497]	[0.403]	[0.330]	[0.480]	[0.355]
E_Index	-0.06	-0.087	-0.07	-0.067	-0.066	-0.069	-0.064
	[0.170]	[0.170]	[0.174]	[0.174]	[0.174]	[0.168]	[0.173]
DA	0.9	0.88	0.899	0.89	0.892	0.871	0.9
	[0.802]	[0.805]	[0.800]	[0.798]	[0.801]	[0.798]	[0.802]
Size	0.728***	0.760***	0.729***	0.727***	0.726***	0.742***	0.731***
	[0.111]	[0.113]	[0.110]	[0.110]	[0.110]	[0.111]	[0.111]
M2B	-0.001	-0.004	-0.001	-0.001	-0.001	-0.002	-0.002
	[0.020]	[0.020]	[0.020]	[0.020]	[0.020]	[0.019]	[0.020]
Leverage	2.328***	2.302***	2.326***	2.307***	2.318***	2.337***	2.329***
	[0.591]	[0.586]	[0.591]	[0.589]	[0.589]	[0.586]	[0.590]
Age	-0.003	-0.001	-0.003	-0.003	-0.003	-0.002	-0.003
	[0.008]	[0.008]	[0.008]	[0.008]	[0.008]	[0.008]	[0.008]
Distance	-0.139	-0.164*	-0.144	-0.148	-0.146	-0.153	-0.142
	[0.097]	[0.095]	[0.095]	[0.094]	[0.094]	[0.093]	[0.096]
Analyst	0.004	0.01	0.004	0.005	0.005	0.007	0.005
	[0.019]	[0.019]	[0.019]	[0.019]	[0.019]	[0.019]	[0.019]
Fortune	0.09	0.361	0.132	0.122	0.135	0.566	0.143
	[0.325]	[0.370]	[0.349]	[0.345]	[0.351]	[0.486]	[0.391]
FPS	0.975*	0.948*	0.965*	0.958*	0.963*	0.963*	0.971*
	[0.523]	[0.535]	[0.527]	[0.526]	[0.525]	[0.530]	[0.525]
Constant	-11.178***	-11.225***	-11.135***	-11.090***	-11.060***	-11.248***	-11.177***
	[1.403]	[1.402]	[1.404]	[1.414]	[1.428]	[1.411]	[1.405]
Observations	25,102	25,102	25,102	25,102	25,102	25,102	25,102
Missing E-Index	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R2	0.382	0.384	0.382	0.383	0.382	0.383	0.382

Table 5: Meeting Timing

This table presents the results of estimating the following logit model: Pr (Meeting) = f (Investigate, controls). The dependent variable equals 1 if the firm has met with the SEC, and 0 otherwise. Investigate equals 1 if the firm-year is at risk of investigation, and 0 otherwise. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively. All variables are defined in Appendix A. Industry and year fixed effects are included for all regressions. Standard errors are clustered by issuer and reported in the brackets.

	(1)	(2)	(3)
Investigate		1.031***	1.003***
		[0.242]	[0.247]
Bellwether			-0.056
			[0.340]
E_Index			-0.013
			[0.167]
DA	0.927	0.994	0.989
	[0.773]	[0.787]	[0.801]
Size	0.793***	0.760***	0.771***
	[0.109]	[0.098]	[0.104]
M2B	-0.005	-0.004	-0.004
	[0.018]	[0.019]	[0.020]
Leverage	2.378***	2.314***	2.387***
	[0.527]	[0.539]	[0.552]
Age	0.002	0.002	0.002
	[0.007]	[0.007]	[0.008]
Distance	-0.170*	-0.153*	-0.139
	[0.095]	[0.090]	[0.091]
Analyst	0.019	0.02	0.01
	[0.015]	[0.014]	[0.018]
Fortune	0.332	0.157	0.091
	[0.355]	[0.346]	[0.336]
FPS	0.881*	0.842	0.868*
	[0.512]	[0.513]	[0.508]
Constant	-11.919***	-11.928***	-11.722***
	[1.109]	[1.122]	[1.368]
Observations	25,102	25,102	25102
Missing E-Index	No	No	Yes
Pseudo R2	0.373	0.385	0.387

Table 6: Monetary Outcomes

Panel A reports the descriptive statistics for variables used in Panel B. Panel B reports the results from an OLS model that models the monetary outcomes for each SEC enforcement. Our enforcement sample is after year 2009 because the meeting variable is only available after 2009. The dependent variable is natural log of 1 plus civil monetary settlement. In this table, Meeting equals one if the firm met with the SEC chair between investigation start date and enforcement start date, and 0 otherwise. All continuous variables are winsorized at the 1st and 99th percentile. *, **, and *** represent significance at the 0.1, 0.05, and 0.01 levels respectively. All variables are defined in Appendix A. Industry and year fixed effects are included for all regressions. Standard errors are clustered by issuer and reported in the brackets.

Panel A: Descriptive statistics

	Meet =1 (N=34)					***Meet =0 (N=240)***				
Variables	**25%tile**	**Median**	**75%tile**	**SD**	**Mean**	**25%tile**	**Median**	**75%tile**	**SD**	**Mean**
Penalty (log)	13.082	13.122	15.425	2.457	12.929	11.918	14.880	16.524	5.527	13.886
PAC	0	14.727	15.202	6.871	10.458	0	0	0	4.888	2.251
DA	-0.050	-0.024	0.019	0.107	-0.036	-0.052	0.003	0.051	0.139	-0.001
Size	12.208	12.458	12.458	0.972	12.022	5.961	7.460	9.879	2.561	7.635
M2B	0.755	1.055	1.493	0.942	1.184	0.924	1.649	3.092	4.580	2.875
Leverage	0.910	0.923	0.955	0.094	0.901	0.382	0.506	0.682	0.226	0.527
Age	18	21	33	7.057	24.118	17	26	39.5	17.072	30.021
Distance	4.624	5.328	5.339	1.075	5.473	5.751	7.074	7.795	1.459	6.875
Analyst	3	13.5	20	8.652	12.529	2	5	11	7.581	7.696
Fortune	0	0	1	0.493	0.382	0	0	0	0.235	0.058
Violation	0.693	0.693	1.099	0.264	0.866	0.693	1.099	1.386	0.367	1.070
Fraud	0	0	0	0	0	0	0	0	0.317	0.113
Investigate	0	0	1	0.475	0.324	0	0	0	0.311	0.108
Length	0	0	0	0.619	0.106	0	0	1.946	1.878	1.080
Restate	0	0	0	0.359	0.147	0	0	0	0.322	0.117
SEC Admin	1	1	1	0.171	0.971	0	1	1	0.483	0.633

Table 6 (continued)

Panel B: Tobit regressions

	(1)	(2)	(3)
Meet*PAC			-0.101
			[0.142]
Meet		-2.928**	-2.101
		[1.358]	[1.785]
PAC	0.03	0.049	0.07
	[0.069]	[0.069]	[0.075]
DA	-1.727	-1.723	-1.777
	[2.350]	[2.329]	[2.329]
Size	1.492***	1.536***	1.546***
	[0.197]	[0.196]	[0.196]
M2B	0.231***	0.221***	0.224***
	[0.077]	[0.077]	[0.077]
Leverage	-4.588***	-3.756**	-3.797**
	[1.709]	[1.736]	[1.736]
Age	0.01	-0.005	-0.007
	[0.023]	[0.024]	[0.024]
Distance	-0.288	-0.394*	-0.419*
	[0.228]	[0.231]	[0.233]
Analyst	-0.102*	-0.094*	-0.098*
	[0.056]	[0.056]	[0.056]
Fortune	-1.434	-0.833	-0.724
	[1.356]	[1.372]	[1.379]
Violations	-1.453	-1.225	-1.21
	[1.085]	[1.081]	[1.081]
Fraud	-0.701	-0.762	-0.767
	[1.211]	[1.201]	[1.201]
Investigate	0.403	0.579	0.658
	[0.937]	[0.932]	[0.938]
Length	0.621***	0.626***	0.624***
	[0.206]	[0.204]	[0.204]
Restate	0.208	0.243	0.262
	[0.933]	[0.925]	[0.925]
Constant	4.198	4.103	4.163
	[3.108]	[3.082]	[3.082]
Observations	274	274	274
Pseudo R2	0.073	0.076	0.076

Table 7: Enforcement Venue

This table reports results from a logit model predicting enforcement venue. The dependent variable equals 1 if the case was routed to the SEC administrative proceedings, and 0 if the case was routed to federal district court. Our enforcement sample is after year 2009 because the meeting variable is only available after 2009. In this table, *Meet* equals one if the firm met with the SEC chair between investigation start date and enforcement start date, and 0 otherwise. All continuous variables are winsorized at the 1st and 99th percentile. *, **, and *** represent significance at the 0.1, 0.05, and 0.01 levels respectively. All variables are defined in Appendix A. Standard errors are clustered by issuer and reported in the brackets.

	(1)	(2)	(3)
Meet		1.634*	1.757**
		[0.914]	[0.894]
PAC	0.074**		0.078**
	[0.032]		[0.033]
DA	1.254	1.163	1.19
	[2.031]	[2.007]	[1.980]
Size	0.111	0.084	0.082
	[0.263]	[0.269]	[0.267]
M2B	0.124	0.115	0.122
	[0.137]	[0.128]	[0.130]
Leverage	-0.888	-0.985	-1.216
	[1.766]	[1.754]	[1.759]
Age	-0.082***	-0.076***	-0.077***
	[0.023]	[0.023]	[0.024]
Distance	-0.716***	-0.679**	-0.666**
	[0.259]	[0.277]	[0.270]
Analyst	-0.051	-0.043	-0.051
	[0.037]	[0.039]	[0.037]
Fortune	0.634	0.804	0.529
	[1.277]	[1.356]	[1.389]
Violations	-2.356*	-2.475**	-2.375*
	[1.204]	[1.209]	[1.217]
Fraud	-0.418	-0.323	-0.375
	[0.972]	[0.974]	[0.964]
Investigate	-0.517	-0.452	-0.558
	[0.649]	[0.630]	[0.664]
Length	-1.004***	-1.001***	-0.998***
	[0.292]	[0.292]	[0.288]
Restate	1.76	1.729	1.774
	[1.086]	[1.136]	[1.113]
Constant	11.482** *	11.415***	11.334***
	[3.343]	[3.324]	[3.295]
Observations	274	274	274
Pseudo R2	0.495	0.499	0.507

Table 8: Changes in PAC Contributions

Table 8 examines the changes in the total PAC contributions around SEC investigation periods. Panel A presents the PAC contributions in the year before, during, and after investigations for firms with and without meetings. The sample consists of all firms investigated by the SEC. Panel B reports the changes in PAC contributions and statistical tests of the changes across firms with and without meetings.

Panel A: Changes in PAC for firms with and without meetings

Chg in PAC (log)	**Meet = 1**	**Meet = 0**	**t-stat**
During Investigation - 1 Yr Before Investigation	1.712	0.275	9.649
1 Yr After Investigation - During Investigation	-0.014	-0.008	0.071

Panel B: Distribution of PAC(log) by Meet and court

	Federal Court	Admin Proceeding	Total
Meet=0	2.162	2.303	2.251
	(N=88)	(N=152)	(N=240)
Meet=1	0	10.775	10.458
	(N=1)	(N=33)	(N=34)
Total	2.137	3.815	3.270
	(N=89)	(N=185)	(N=274)

Table 9: Robustness Check -- Rare Logit

This table presents the results of estimating the following logit model: Pr(Meeting) = f(Log_PAC, Bell_Weather, controls). The dependant variable equals 1 if the firm has met with the SEC, and 0 otherwise. Robust standard errors are reported in the brackets. *, **, and *** denote significance at the 0.1, 0.05, and 0.01 levels, respectively. All variables are defined in Appendix A. Industry and year fixed effects are included for all regressions. Standard errors are clustered by issuer and reported in the brackets.

	(1)	(2)	(3)	(4)
PAC	0.065**			0.060**
	[0.029]			[0.030]
Bellwether		0.077		-0.037
		[0.334]		[0.337]
E_Index			-0.052	-0.061
			[0.167]	[0.173]
DA	0.868	0.907	0.894	0.869
	[0.792]	[0.771]	[0.787]	[0.797]
Size	0.710***	0.784***	0.792***	0.719***
	[0.103]	[0.109]	[0.114]	[0.110]
M2B	-0.001	-0.005	-0.005	-0.001
	[0.019]	[0.018]	[0.019]	[0.020]
Leverage	2.259***	2.379***	2.466***	2.327***
	[0.568]	[0.527]	[0.541]	[0.590]
Age	-0.001	0.002	-0.001	-0.003
	[0.007]	[0.007]	[0.008]	[0.008]
Distance	-0.151	-0.169*	-0.154	-0.141
	[0.094]	[0.095]	[0.097]	[0.095]
Analyst	0.012	0.019	0.008	0.005
	[0.016]	[0.015]	[0.018]	[0.019]
Fortune	0.204	0.319	0.218	0.124
	[0.365]	[0.357]	[0.338]	[0.349]
FPS	0.858	0.79	0.816	0.869*
	[0.527]	[0.511]	[0.507]	[0.525]
Constant	-11.299***	-11.707***	-11.321***	-10.927***
	[1.150]	[1.120]	[1.319]	[1.416]
Observations	25,102	25,102	25,102	25,102
Missing E-Index	No	No	Yes	Yes